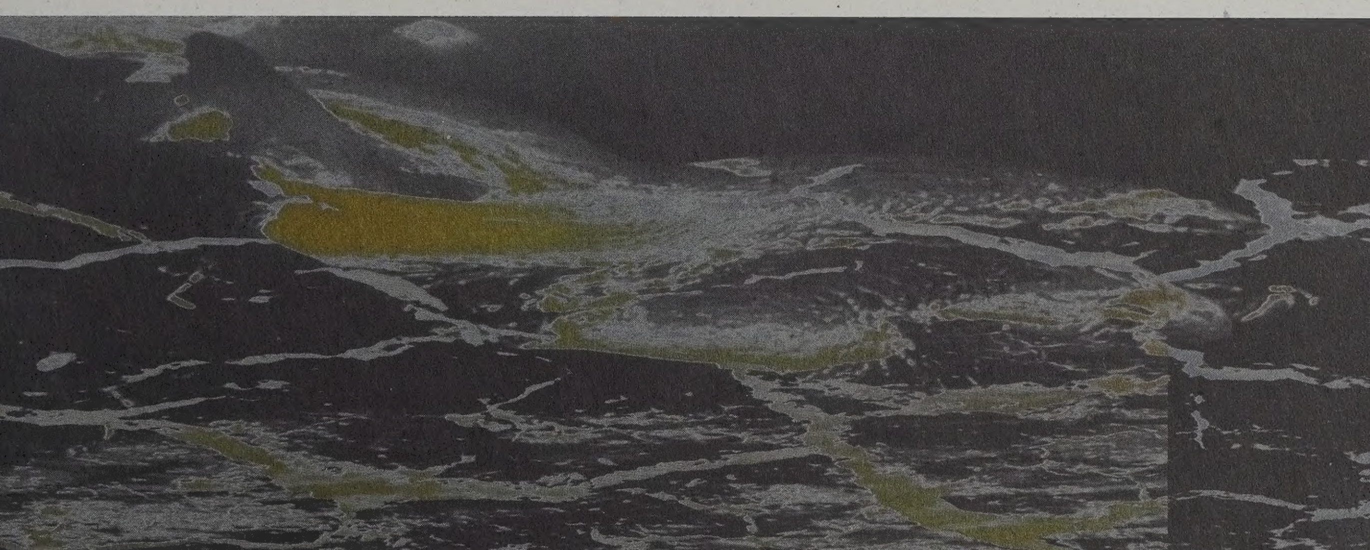
1995 Annual Report

GRANTHAM RESOURCES INC.



NOTE: All financial amounts in Canadian dollars unless indicated otherwise.

Notice of Annual Meeting

The Annual General Meeting of shareholders will be held at 10:00 a.m. on Wednesday, June 26, 1996 at the Sandman Hotel, 888 – 7th Avenue S.W., Calgary, Alberta.

All shareholders are invited to attend and participate in the meeting. Those unable to attend are encouraged to vote by proxy.

About Grantham

Grantham Resources Inc. is pleased to present its first annual report under the new management team. The Company carried out 1995 as an ongoing oil and gas concern. From a pricing point of view, natural gas has been stagnant and oil traded within a narrow range. Our Company spent considerable time looking for acquisition opportunities that would enhance shareholders value and fuel future growth. Quality properties continued to be sold for very high multiples of cash flow, providing little value for investment, therefore no acquisitions were made.

1995 has been an interesting year for Grantham. On December 7, 1995 the Company signed a letter of intent with Ecuaperu Gold Properties Ltd. ("EGPL") whereby EGPL offered to purchase a control block in the Company. Final agreements were signed on February 29, 1996. On the same day Grantham purchased EGPL's interest in two promising groups of gold properties in Ecuador, South America. These transactions effected a change in control as well as the nature of business Grantham will be pursuing.

The Company is currently raising $5,700,000 through a Euro-equity financing marketed by C.M. Oliver & Company of London, England, on a *best efforts* basis to European institutional investors. This money will be spent on gold and other precious metal property exploration. Grantham has now taken on the challenge of international mineral exploration.

President's Report to Shareholders

During 1995, production of oil, natural gas liquids and natural gas was nominal. Grantham did not engage in any exploratory drilling programs. Lower natural gas prices during 1995 and continuing into 1996 are forcing many companies, large and small, into mergers or sale of some of their assets. We have been monitoring these developments carefully to look for good opportunities.

Late in 1995, Grantham completed the purchase of Ecuaperu Gold Properties Ltd's interest in two promising groups of gold properties (Peltetec and Ganarin) in Ecuador, South America. With this transaction Grantham has shifted its focus to exploration and development of precious metals. As an international gold exploration company, our Company is now exploring these properties and is pursuing acquisition of other prospective concessions and properties in Ecuador, Peru and in other favourable countries in South America.

A new Board of Directors and management took office on February 29, 1996. The new Directors bring foresight, vision, business experience and the mining skills necessary to guide Grantham into the next stage. Our interests will be well served by the new Board of Directors. Your Company is well represented by a highly skilled and experienced management team. Their qualifications include worldwide experience in minerals exploration, project evaluation, project management, mine design, mine operations, gold, base metals and rare earth property evaluations.

"We are now focused and devoted to ou

enhancing shareholder value b

We also thank Messrs Daniel R. Lescamela, D. Robertson, Mark F. Ross, Emil K.S.Rem(tullah), Dr. James Werebicki and Edward M. Southern, outgoing directors, for their advice in directing Grantham though 1995 and into a new era in 1996.

We sincerely thank our employees and consultants for their hard work and assistance during the year. C.M. Oliver & Company's confidence in Grantham's management is greatly appreciated.

We are now focused and devoted to our major objective of enhancing shareholder value by seeking exploration prospects that will yield world scale mineral deposits and will lead to profitable precious minerals operating mines in the future. With a strong financial position, a strong management team and a new focus, 1996 will prove to be a truly exciting time for all of us associated with Grantham.

On behalf of the Board of Directors

S. Brian Gieni
President and Chief Executive Officer
May 13, 1996

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world scale mineral deposits..."

A South American Vista

Latin America has attracted foreigners, including historic Spanish expeditions to exploit the wealth of gold and silver since the 16th century. In pursuit of these precious metals, the Spanish conquered the entire Inca empire, including the Andean nations of Colombia, Ecuador, Peru, Chile, Bolivia and Argentina. Once again, during the last few years, there has been an invasion, this time of friendly foreign mining companies attracted to gold, silver and other metal deposits, because:

- *Most Latin American countries now have established well laid out mining codes and laws;*
- *Foreign companies can repatriate profits;*
- *The countries understand the rapid growth provided by natural resources development.*

Mineral rich regions of Latin America and the legacy of Inca mines are main attractions. Modern exploration techniques and capital have been absent for long periods. Recent changes in the mining laws now make South America attractive, and mining companies are rushing in with foreign capital and expertise to seek, explore and develop highly prospective properties.

With the Peltetec and Ganarin groups, Grantham has high quality properties in the most attractive new area for development... Ecuador. In addition, our Geologists are searching the Andes, primarily in Ecuador, Peru and Bolivia, for additional quality exploration targets that meet our stringent property criteria.

ATTRACTIONS OF ECUADOR

- *"Apertura" or liberalization of the Ecuadorian economy and general business practices*
- *Royalties: 3% on minerals, offsettable against income tax*
- *Corporate Income Tax: 25% maximum*
- *No limitation on repatriation of profits*
- *Import duties: 5% + Value Added Tax (may be exempted for mining)*
- *Withholding Tax: none*
- *Liberal depreciation and carry forward of losses*

APER

ECUADOR

Ecuador has been trying to attract foreign investment for some years. To speed up the process it has embraced the "Pillars of Reform", namely:

- *Economic Growth and Lower Inflation;*
- *"Apertura" or Liberalization;*
- *Privatization.*

The mining code, foreign investment and taxation regimes have recently been modernized and are considered competitive by the international community.

Major minerals mined in Ecuador include gold, silver, lead and zinc. Minor amounts of copper, molybdenum, pyrite, sulphur, bentonite and barite are also produced. In Ecuador, Grantham is competing with many companies including Cambior, Cogema, Ecuadorian Minerals, Gencor, Gold Fields of South Africa, Jersey Goldfields, Newmont, RTZ and TVX Gold.

With the Peltetec and Ganarin groups of prospects, Grantham is well positioned by having control over 16,835 ha (42,075 acres) of promising gold exploration areas. Details of these concessions appear later in the report.

TURA

la oportunidad

Grantham's Peltetec Property Group

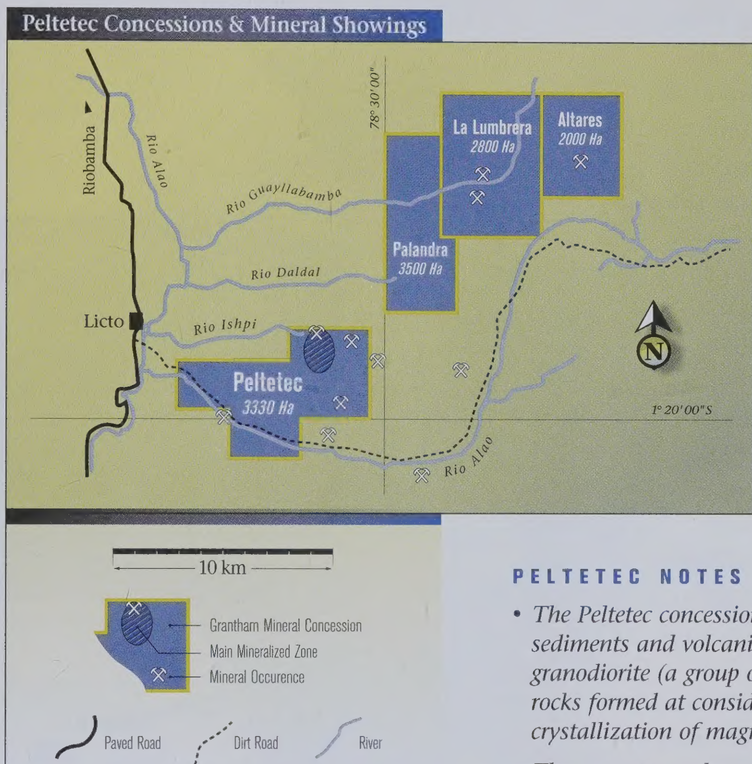
The Peltetec property is located on the western slopes of the Eastern Range of the Andes in central Ecuador. There are four separate concessions: Peltetec, Palandra, La Lumbrera and Altares, covering a total area of 11,710 hectares (29,275 acres).

A multi-phase exploration program to assess the potential for gold on these and other concessions is planned to commence this summer.

Detailed exploration in the geochemically anomalous source area on the Peltetec prospect is expected to commence in June 1996. The objective is to define targets for follow-up drilling.

"The best assays obtained from these vein

were 24.4, 241.0 an



PELTETEC NOTES

- *The Peltetec concession contains metamorphosed sediments and volcanic rocks intruded by granodiorite (a group of coarse grained plutonic rocks formed at considerable depth by crystallization of magma)*
- *There are anomalous gold values in granodiorite over an area estimated at 2 km x 3 km*
- *Numerous geochemical anomalies – with up to 1,000 ppb gold in soils, and 5,000 pbb in stream silts*
- *Gold bearing quartz shear zones are exposed in pits on the property*
- *Assay values range from 2.8 to 6.4 g/t gold in shear zones; and from 24.4 to 241.0 g/t gold over 0.5 m in a high grade quartz vein*
- *A massive sulphide deposit occurs on the La Lumbrera concession*
- *The Condorazo prospect (reported to be the site of a Colonial era silver mine) occurs in the Altares concession*
- *The Palandra concession has similar rock types and geology as those occurring at Peltetec*

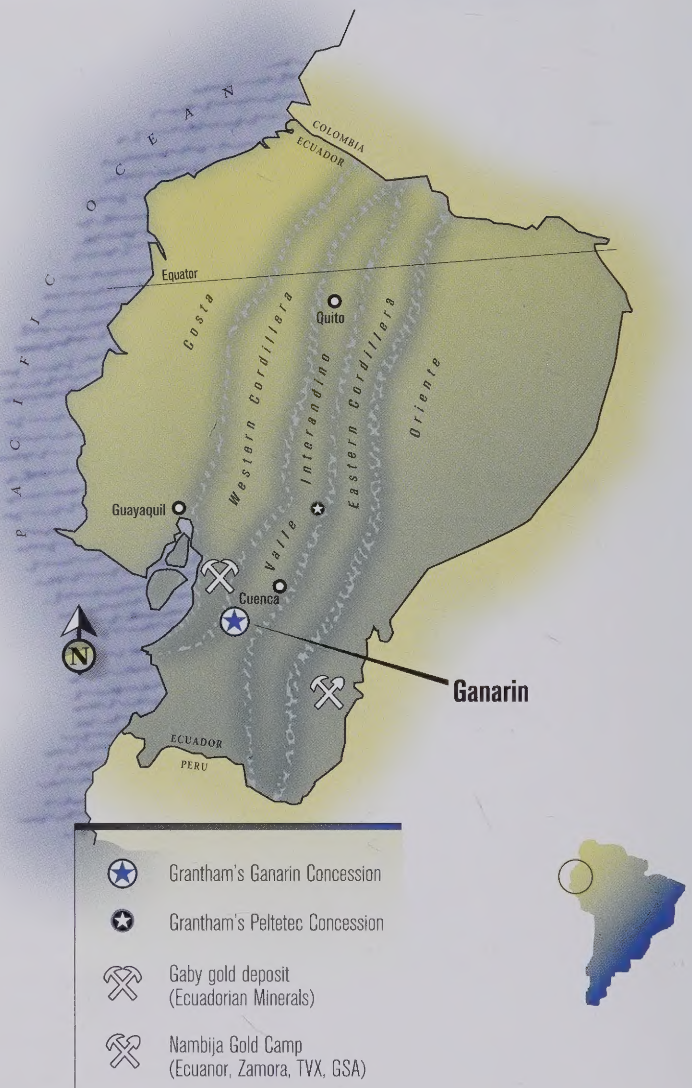
and shear zones
72.6 g/t gold"

Grantham's Ganarin Property Group

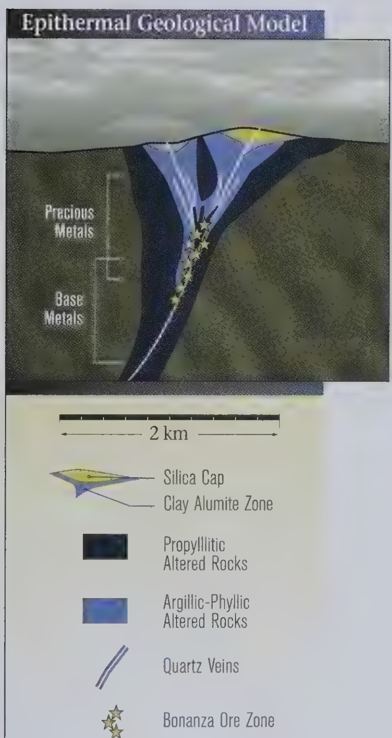
The Ganarin property is located in the inter-Andean Graben about 65 km southwest of the city of Cuenca in the province of Azuay in south central Ecuador. It consists of two contiguous exploration concessions, La Herradura and Ganarin, covering a total area of 5125 hectares (12,800 acres).

The mineralized zone at Ganarin is hosted in a classical epithermal (a hydrothermal mineral deposit occurring as veins near the earth's surface) precious metals system. The length of gold bearing quartz vein systems, the size of the silica cap, and the wide distribution of alteration suggest that the system is fairly large.

Field work is planned to commence during July 1996. The first phase will consist of prospecting, reconnaissance mapping and stream sediment sampling. More detailed geological, geochemical and geophysical exploration in the main mineralized region will be completed to evaluate the economic potential of the system. This information will be used to identify the drill sites leading to the second phase.



"There is potential for a "Bonanza"



GANARIN NOTES

- *The known mineralized zone consists of at least seven quartz vein systems over a width of 500 m and a strike length of at least 1 km*
- *The mineralized zone exhibits features of a classical volcanic hosted epithermal precious metals system*
- *The presence of a silica cap and clay alteration indicate that the present day surface is near the top of the epithermal system*
- *Gold content in samples taken by Grantham ranged from 0.50 to 4.4 g/t; grab samples from sacks of ore near mine workings returned 15.92 g/t gold and 49.70 g/t silver*
- *The length of gold bearing quartz vein systems, the size of the silica cap, and the wide distribution of alteration suggest that the system is fairly large with the potential for a "Bonanza" ore zone*

Management's Report

The accompanying financial statements of Grantham Resources Inc. and all information in the report are the responsibility of management and have been approved by the Board of Directors. The financial statements necessarily include some amounts that are based on management's best estimates, which have been made using careful judgement.

The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. In fulfilling their responsibilities, management of Grantham Resources Inc. has developed and continue to maintain systems of internal accounting controls and segregation of duties and responsibilities whenever possible.

Although no cost effective system of internal controls can prevent or detect all errors and irregularities, these systems are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use, that all transactions are properly recorded and the financial records are reliable for preparing the financial statements.

The Board of Directors carries out its responsibility for the financial statements in this annual report principally through its Audit Committee. The Audit Committee meets periodically with management and with the external auditors to discuss the results of audit examinations with respect to the adequacy of internal accounting controls, and to review and discuss the financial statements and reporting matters.

The financial statements have been independently audited and approved by Antony Bleackley Hanson & McCowan, Chartered Accountants, who have full access to all company financial and operational records. Their report follows.

S. Brian Gieni
President

Auditors' Report

February 23, 1996

To the Shareholders of
Grantham Resources Inc.

We have audited the balance sheet of Grantham Resources Inc. as at December 31, 1995 and January 31, 1995 and the statements of operations and deficit and changes in financial position for each of the periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1995 and January 31, 1995 and the results of its operations and the changes in its financial position for the each of the periods then ended in accordance with generally accepted accounting principles.

Antony Bleackley Hanson & McCowan

Antony Bleackley Hanson & McCowan
Chartered Accountants

Balance Sheet

	December 31 1995	January 31 1995
ASSETS		
Current assets:		
Cash	$ —	$ 22,359
Accounts receivable	76,748	73,966
Deposits	—	450
	76,748	96,775
Oil and gas assets (Note 3)	587,636	861,425
Organization costs	—	754
	$ 664,384	$ 958,954
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 15,319	$ 26,219
Income tax payable	—	767
Bank loan (Note 4)	71,339	403,975
	86,658	430,961
Site restoration costs accrued	4,075	2,068
Shareholders' equity:		
Share capital (note 5)	642,628	504,728
Retained earnings (deficit)	(68,977)	21,197
	573,651	525,925
	$ 664,384	$ 958,954

Approved by the Board:

Al Kroontje
Director

Daniel R. Lescamela
Director

Statement of Operations and Deficit

	Eleven Months ended December 31 1995	Year ended January 31 1995
Revenue:		
Oil and gas (net of royalties and ARTC)	$ 191,297	$ 302,837
Interest income	947	992
	192,244	303,829
Expenses:		
Operating costs	73,412	90,701
Amortization and depletion	105,789	95,640
General and administrative (Note 7)	31,322	45,162
Interest expense	23,691	37,755
Site restoration costs	2,007	2,068
Loss on disposal of oil and gas assets	46,197	—
	282,418	271,326
Net income (loss) for the period before income taxes	(90,174)	32,503
Income tax	—	767
Net income (loss) for the period	(90,174)	31,736
Retained earnings (deficit) at beginning of period	21,197	(10,539)
Retained earnings (deficit) at end of period	$ (68,977)	$ 21,197
Basic earnings (loss) per share	$ (0.02)	$ 0.01
Fully diluted earnings (loss) per share	$ (0.02)	$ 0.01

Statement of Changes in Financial Position

	Eleven Months ended December 31 1995	Year ended January 31 1995
Operating activities:		
Working capital from operations –		
Net income (loss) for the period	$ (90,174)	$ 31,736
Add: Items not requiring a current outlay of cash –		
Amortization and depletion	105,789	95,640
Site restoration	2,007	2,068
Loss on disposal of oil and gas asset	46,197	—
Change in non-cash working capital	(13,245)	(24,812)
	50,574	104,632
Financing activities:		
Sale of shares for cash	137,900	321,736
Bank loan increase (reduction)	(332,636)	403,975
	(194,736)	725,711
Investing activities:		
Purchase of oil and gas properties	—	(952,866)
Proceeds on disposal of oil and gas assets	121,803	—
	121,803	(952,866)
Decrease in cash for the period	(22,359)	(122,523)
Cash, beginning of period	22,359	144,882
Cash, end of period	$ —	$ 22,359

Notes to Financial Statements

December 31, 1995

1. Change in year end:

In agreements dated February 2, 1995, a total of 48.18% of the issued and outstanding common shares of the Company were acquired by Signature Energy Corporation from various directors and officers of the Company.

This transaction results in a change in control of the Company and so as a result, the Company has filed appropriate income tax returns for the two day period ended February 2, 1995.

In addition management of the Company has decided to change the Company's year end to December 31. Thus the December 31, 1995 financial statements contain operations for the eleven months ended December 31, 1995.

2. Significant accounting policies:

(a) Oil and gas properties --

The successful efforts method of accounting is used for oil and gas operations. Under this method, lease acquisition costs are capitalized and lease carrying costs are expensed. The capitalized costs of significant undeveloped leases are reviewed annually, and a charge is made to earnings for impairment of value when necessary. When undeveloped leases are surrendered, any remaining costs are charged against earnings.

Costs of undeveloped leases which become productive, together with associated exploration and development costs are depleted on the unit-of-production method based on estimated proven reserves of oil and gas.

Geological and geophysical costs are expensed as incurred, and the costs associated with unsuccessful drilling are written off when the wells are abandoned. Future site restoration costs are accrued and expensed based on the unit of production method.

(b) Joint ventures —

Certain of the Company's exploration and development activities are conducted through joint ventures. The accounts reflect only the Company's proportionate interest in such activities.

3. Oil and gas assets:

			Net book value	
	Cost	Accumulated amortization and depletion	December 31 1995	January 31 1995
Oil and gas interests	$ 601,157	$ 136,857	$ 464,300	$ 529,537
Intangible drilling costs	–	–	–	168,000
	601,157	136,857	464,300	697,537
Equipment	187,300	64,383	122,917	163,888
	$ 788,457	$ 201,240	$ 587,217	$ 861,425

4. Bank loan:

The bank loan is a demand loan, with interest at prime plus 1.5%. This loan is secured by a general assignment of book debts and a $1,000,000 debenture on the Company's oil and gas assets.

Notes to Financial Statements

December 31, 1995 Continued from page 15

5. Capital stock:

Authorized —
An unlimited number of common shares without nominal or par value
An unlimited number of first and second preferred shares

Issued —
Common shares have been issued as follows:

	Shares	Cost
Balance, January 31, 1994	3,350,000	$ 182,992
Issued as part of major transaction	1,000,000	200,000
Exercise of agent's option	85,000	8,500
Issue of flow-through shares less issue costs of $44,266	700,000	130,734
Less: Share subscriptions not received until after year end	(70,000)	(17,500)
Balance, January 31, 1995	5,065,000	504,728
Subscription receivable (above)	70,000	$ 17,500
Exercise of directors and officers stock options	335,000	33,500
Exercise of agent's option	85,000	8,500
Private placement of shares	313,600	78,400
Balance, December 31, 1995	5,868,600	$ 642,628

6. Income taxes:

At December 31, 1995 the Company has an unutilized loss for income tax purpose of $24,000. This loss is available to be applied against taxable income of future years except that, if not so applied, this loss will expire on December 31, 2002. The potential future benefit of this loss has not been recognized in these financial statements.

The Company also has undeducted Canadian Oil and Gas Property Expenses, Capital Cost and Canadian Development Expenses of $574,000.

7. Schedule of administrative expenses:

	December 31 1995	January 31 1995
Filing fees	$ 1,350	$ 2,650
Professional fees	23,712	26,635
Office	2,687	8,577
Shareholder information	161	1,719
Transfer agent fees	3,412	5,581
	$ 31,322	$ 45,162

8. Subsequent event:

In an agreement dated January 16, 1996, Signature Energy Corporation acquired 308,750 shares of the Company, making Signature's total ownership of Grantham 51.1%.

Subsequent to the year end, the Company has requested a reduction in its line of credit to $85,000.

Directors

Brian Gieni
President and CEO
Ecuaperu Gold Properties Ltd.

Al Kroontje
President
Signature Energy

Peter Kutney
Director
Pegasus Gold

R. Iverach Q.C.
Partner
Felesky Flynn

Management

Brian Gieni
President and CEO

Leslie Smith, B.Sc. P.Geol
Vice President – Exploration

Eric Allen, ACSM, M.Sc. P.Eng.
Vice President – Mining

Jim Allan, M.Sc. P.Eng.
Vice President – Acquisitions

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Special Consultant

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Quito, Ecuador

Legal Counsel

Burstall Ward
Calgary, Alberta

Cook Duke Cox
Calgary, Alberta

Auditors

Antony Bleackley Hanson & McCowan
Calgary, Alberta

Banker

Scotiabank
Calgary, Alberta

Listing

Alberta Stock Exchange
Symbol "GRN"

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